

## **TAX EXPENDITURES**

This attachment provides information on Australian Government tax expenditures, as required by the *Charter of Budget Honesty Act 1998*.

A tax expenditure arises where the actual tax treatment of an activity or class of taxpayer differs from the benchmark tax treatment. Tax expenditures typically involve tax exemptions, deductions or offsets, concessional tax rates or deferrals of tax liability.

Benchmarks represent the standard taxation treatment that applies to similar taxpayers or types of activity. Benchmarks may also incorporate structural elements of the tax system; for example, the progressive income tax rate scale for individual taxpayers.

Determining benchmarks involves judgment and consequently, the choice of benchmark may be contentious. Benchmarks may also vary over time. The choice of benchmark should not be interpreted as indicating a view on how an activity or class of taxpayer ought to be taxed.

Consistent with most OECD countries, estimates of the size of tax expenditures reflect the existing utilisation of a tax expenditure, similar to Budget estimates of outlays on demand-driven expenditure programs. Estimates do not indicate the Budget impact if a tax expenditure were to be abolished, as there may be significant changes in taxpayer behaviour were tax expenditures to be removed.

Care needs to be taken when comparing tax expenditures with direct expenditures as they may measure different things. In addition, estimates from different editions of the Tax Expenditures Statement (TES) should not be compared because, for example, benchmarks may have changed.

The information in Table 3.23 is derived from the 2014 TES and, consistent with longstanding practice, does not include the impact of decisions taken since the 2014-15 MYEFO. Further information on tax expenditures is available in the 2014 TES. Updated tax expenditure estimates will be published in the 2015 TES, to be released in January 2016. This will also include estimates for any new or modified tax expenditures since the 2014 TES.

**Table 3.23: Large measured tax expenditures for 2015-16 to 2018-19**

Tax expenditure	Estimate \$m				
	2015-16	2016-17	2017-18	2018-19	
<b>Large positive tax expenditures</b>					
E6	Capital gains tax main residence exemption — discount component	25,500	25,500	26,000	26,500
E5	Capital gains tax main residence exemption	20,500	21,000	21,500	22,000
C3	Concessional taxation of employer superannuation contributions	17,350	18,100	19,050	20,150
C6	Concessional taxation of superannuation entity earnings	16,150	21,600	26,800	30,400
H28	GST — Food	6,700	7,000	7,300	7,600
E11	Capital gains tax discount for individuals and trusts	6,150	6,840	7,600	8,570
H16	GST — Education	4,300	4,700	5,150	5,600
H2	GST — Financial supplies — input taxed treatment	3,750	3,950	4,150	4,350
H19	GST — Health — medical and health services	3,800	4,100	4,400	4,700
C5	Concessional taxation of non-superannuation termination benefits	1,950	1,900	1,900	1,850
A38	Exemption of Family Tax Benefit payments	2,170	2,110	2,040	2,100
B73	Statutory effective life caps	1,930	1,850	1,745	1,650
B14	Exemption from interest withholding tax on certain securities	1,860	1,860	1,860	1,860
A19	Medicare levy exemption for residents with taxable income below the low-income thresholds	1,860	1,930	2,000	2,070
A17	Exemption of the Private Health Insurance Rebate	1,690	1,760	1,850	1,940
D10	Exemption for public and not-for-profit hospitals and public ambulance services	1,500	1,600	1,700	1,800
D14	Exemption for public benevolent institutions (excluding public and not-for-profit hospitals)	1,430	1,510	1,580	1,660
F8	Concessional rate of excise levied on aviation gasoline and aviation turbine fuel	1,310	1,400	1,500	1,580
H20	GST — Health — residential care, community care and other care services	1,190	1,270	1,360	1,460
A54	Philanthropy — deduction for gifts to deductible gift recipients	1,140	1,170	1,190	1,220
H5	GST — Child care services	1,220	1,340	1,470	1,600
B80	Research and development — non-refundable tax offset	980	960	980	980
H6	GST — Water, sewerage and drainage	1,170	1,290	1,430	1,590
B75	Capital works expenditure deduction	1,005	1,055	1,110	1,160
H3	GST — Financial supplies — reduced input tax credits	940	990	1,050	1,100
<b>Large negative tax expenditures</b>					
F24	Customs duty	- 1,490	- 1,250	- 1,230	- 1,210
F12	Higher rate of excise levied on cigarettes not exceeding 0.8 grams of tobacco	- 2,195	- 2,555	- 2,690	- 2,790